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C O N F I D E N T I A L SECTION 01 OF 02 PANAMA 000648

SIPDIS

USTR PLS PASS TO RVARGO AND JWOLFE  
STATE FOR WHA FOR DFISK, DLINDWALL, JWAGNER, JBRIGHAM  
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TREASURY FOR JJENKINS

E.O. 12958: DECL: 03/19/2014  
TAGS: ETRD PM ECONOMIC AFFAIRS  
SUBJECT: U.S.-PANAMA FTA NEGOTIATIONS - THOUGHTS ON TIMING  
AND ISSUES

REF: A. BOWEN/GASH TELCON 3/5  
    **1B.** BOWEN/WOLFE TELCON 3/16  
    **1C.** PANAMA 452  
    **1D.** PANAMA 492

Classified By: Economic Chief Andrew N. Bowen, for reason 1.5(d)

**¶11. (C)** Summary: Minister of Commerce and Industry Joaquin Jacome and VM for Trade Romel Adames will be traveling to Washington next week for the March 23 TPSC Panama hearing at USTR and to press for moving forward expeditiously with FTA negotiations. The upcoming November U.S. elections and the political environment regarding FTAs have not been lost on them. Both will press for holding a negotiating round or meeting in April -- before the May 2 national elections -- and concluding the negotiations before the Moscoso Administration leaves office on September 1 or shortly thereafter. Their expectations are that the agreement will have aspects of both the CAFTA and Singapore FTAs. Post sees no down-side with holding an April negotiating round or meeting, schedules permitting. Presidential candidates support an FTA with the United States (three of the four very strongly), and we believe they will want discussions to move forward provided the winner's representatives have "a place at the table"(read: are consulted closely). The Panamanians view the FTA as a vehicle to eliminate uncertainty related to unilateral benefits such as CBI, improve market access for goods and services (e.g. sugar, banking, and maritime), but most importantly, to attract investment (or not lose investment to CAFTA). Showing his talent for one-liners, Adames told Econ Chief, this (U.S. investment) will represent the return of the U.S. without the military bases. Both Jacome and Adames also argue that the FTA will reinforce stability and strengthen democratic forces for the long-term in a country where the U.S. still has strategic interests.  
End Summary.

**¶12. (C)** During a wide-ranging conversation with ECON Chief, on March 8, VM Adames, Panama's Chief Negotiator, shared his thoughts on the upcoming bilateral FTA negotiations with the United States. (Note: the Panamanians are studying the CAFTA, Chile, and Singapore texts.) Like his bosses, President Moscoso and Minister Jacome, Adames would like to make as much progress as possible on the bilateral before the Moscoso Administration leaves office September 1. He has argued that starting the negotiations in April before the May 2 national elections would send the right signal that this is a "state project rather than a political one (Ref C)." (Comment: While this is most likely to gain pre-electoral political advantage, we see no down-side with holding a first round or meeting prior to May 2. President Moscoso told Codel Weller in February that she would like to see the negotiations concluded before leaving office, even if she didn't sign (Ref C). Clearly the Panamanians have one eye on the U.S. November elections and the expiration in 2005 of TPA. End Comment.)

**¶13. (C)** For Adames, the FTA represents a vehicle to lock in the status quo or better (CBI, GSP), improve market access for Panama in niche areas (e.g., banking, maritime, and sugar), and most importantly to attract "good U.S. investment." Adames also expressed concern that investment might now be diverted to "CAFTA low wages -- our China", and the uncertainty of the EU's counter-drug driven GSP program. He said that he has met with representatives from the sensitive sectors (rice, dairy, pork, and professional services) and forewarned that he will "have to make tough decisions." He noted that Panama exports very little to the United States (approximately \$301 million in 2003) and that Panama must compete in niches -- banking, maritime, sugar, etc. He quipped that Panama may not initially be looking to give as much on agriculture since Costa Rica didn't give much to the U.S. on services, "only around the edges." Another defensive interest for Panama will be treatment of the Colon

Free Trade Zone. One area that he believes Panama can be forthcoming is government procurement, and coverage of the Panama Canal, given the probable decision to move forward next year on a multi-billion dollar expansion project.

14. (C) Adames proved very adept at making the larger strategic arguments about the importance of this FTA. For Panama he believes that by attracting "good U.S. investment," and "consolidating the U.S. way of doing things" the agreement will help create greater stability, and strengthen democratic forces for the long-term (i.e., mitigate against future leftist-populist tendencies). He declared that this would mark "the return of the U.S. without the bases." With an obvious allusion to the Canal and Panama's strategic location, he said that if things go bad in some countries in the hemisphere "no problem" but "if things go bad here, you're affected."

15. (C) Comment: The Panamanians have been doing their homework and with the assistance of the U.S. law firms Arnold and Porter and Sandler,Travis & Rosenberg, appear prepared to begin negotiations. Adames is a strong proponent of this FTA and also a strong believer in the benefits of trade liberalization. He obviously believes that if the U.S. can accommodate Panama's interest in selected "niche" areas that this can be a very high-standard agreement; he also recognizes Panama doesn't have much leverage. With respect to the presidential candidates, all three (Torrijos-PRD and current front-runner), Alemen-Arnulfista, and Martinelli - CD) strongly support the FTA with the United States. Endara (Solidarity) also supports an FTA; however, he and his advisors have shown that they may be more sensitive to Panama's rural agricultural interests.

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